

## Fannie and Freddie Today

Given all the headlines Fannie Mae and Freddie Mac have generated over the past few years, we at TrustIndiana thought it would be beneficial to give our participants a brief history and explanation of these Government Sponsored Enterprises in this month's newsletter.

### The Origins of Fannie Mae and Freddie Mac

The Federal National Mortgage Association (FNMA), known as Fannie Mae, was formed in 1938 as part of President Franklin D. Roosevelt's New Deal. The impetus for creating this government-owned entity was two-fold: the national commitment to reestablish the nation's housing market in a post-Great Depression environment, and the inability (and unwillingness) of private lenders to ensure a reliable supply of mortgage credit throughout the country. Due to fiscal pressures created by the Vietnam War, Fannie Mae was privatized in 1968 and by 1970 was functioning as a self-sufficient government sponsored enterprise (GSE).

In order to prevent further monopolization of the housing market, a second GSE, the Federal Home Loan Mortgage Corporation (FHLMC), known as Freddie Mac, was formed by the Emergency Home Finance Act of 1970.

Neither agency was created with an explicit full faith and credit guarantee from the U.S. Treasury, however investors assumed there would be support from the government, if needed.

### Fannie Mae and Freddie Mac Today

Fannie Mae and Freddie Mac are now each 79.9 percent owned by the U.S. Treasury and were placed in conservatorship by the Federal Housing Finance Agency (FHFA) during September 2008.

Fannie Mae and Freddie Mac currently own or guarantee the majority of all mortgages issued in the U.S. over the last few years. Therefore, so long as home ownership remains a priority of public policy, and unless an alternative is created, it would seem that the continuity of these GSEs is imperative. Interestingly, the agencies are not part of the pending financial reform package.

Fannie Mae and Freddie Mac continue to be Aaa/AAA/AAA rated by Moody's, S&P and Fitch, respectively, with stable outlooks. Said ratings and outlooks are entirely predicated on U.S. government support.

Rather than explicitly guarantee the debt of Fannie and Freddie, the U.S. Treasury has instead committed to keep their respective Generally Accepted Accounting Principles (GAAP) capital levels positive by injecting preferred stock, "as needed" under the Preferred Stock Purchase Agreement (PSPA) which currently runs to 12/31/12. After 2012 the Treasury's funding commitment for each agency under the PSPA will be calculated as the difference between \$200 billion and the cumulative drawings less any positive net worth at 12/31/12.

Drawings under the PSPA by Fannie and Freddie are now \$85 billion and \$61 billion respectively.

Fannie reported a net loss of \$12 billion for the first quarter of 2010 after losing \$72 billion for the full year ending 12/31/09. On a fair value basis (non-GAAP), Fannie estimates they had a deficit of \$145 billion at 3/31/10. Freddie reported a net loss of \$8 billion for the first quarter of 2010 after losing \$26 billion for the full year ending 12/31/09. On a fair value basis (non-GAAP), Freddie estimates they had a deficit of \$60 billion at 3/31/10.

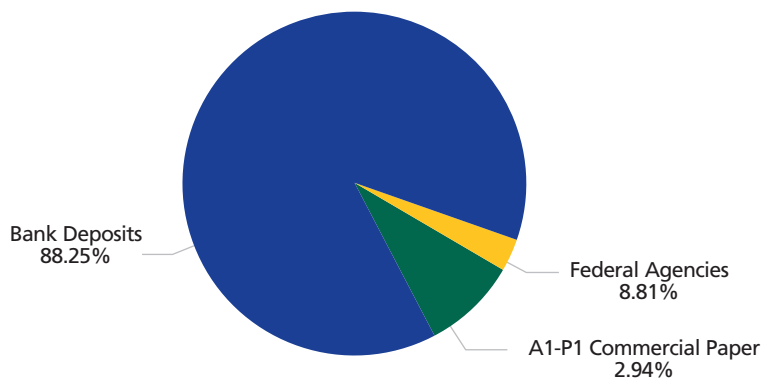
### Conclusion

Fannie and Freddie exist today solely due to the continued support from the U.S. Treasury, who own 79.9 percent of each of them, and are operating under the conservatorship of the FHFA.

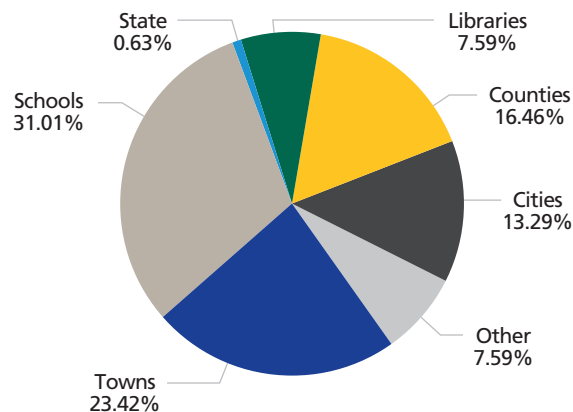
Since the commitment from the U.S. Treasury to the agencies runs beyond 2012 and the agencies are not part of the financial reform package, we are not expecting major changes for some time. We will continue to monitor developments, if any, as they occur.

## Fund Highlights as of May 31, 2010:

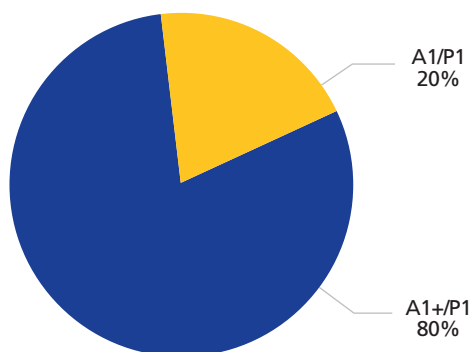
### Portfolio Composition



### Participant Breakdown

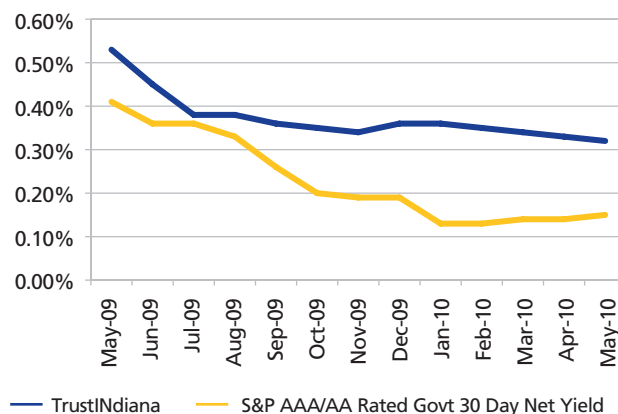


### Investment Credit Quality



### TrustIndiana vs S&P AAA/AA GIP

(30 Day Avg Yields)



Month	Avg Daily Yields	WAM	NAV	Month Ending Net Assets
Feb-10	0.35%	14 Days	1.0000	\$605,742,631
Mar-10	0.34%	18 Days	1.0000	\$644,759,116
Apr-10	0.33%	30 Days	1.0000	\$627,848,437
May-10	0.32%	32 Days	1.0000	\$680,946,651



#### TrustIndiana

Office of the Treasurer of Indiana  
242 State House, 200 W Washington St.  
Indianapolis, IN 46204  
[www.trustindiana.in.gov](http://www.trustindiana.in.gov)

